



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 1 1999

MEMORANDUM FOR: William A. Reinsch
Under Secretary for Export Administration

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *BXA's FY 1998 Financial Statements*
Audit Report No. FSC-10864-9-0001

The attached audit report presents an unqualified opinion on the fiscal year 1998 financial statements for the Bureau of Export Administration's (BXA). The unqualified opinion is especially noteworthy considering the significant changes mandated by OMB Bulletin No. 97-01, which required the preparation of four new financial statements. Also provided are reports on BXA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by BXA management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities of each office, bureau, and activity of the Department. The independent certified public accounting firm of KPMG LLP (KPMG) was contracted to audit BXA's Balance Sheet and related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of KPMG, the financial statements present fairly, in all material respects, the financial position of BXA as of September 30, 1998, and the net costs of their operations; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations of BXA for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the audit indicate that BXA has been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

While KPMG's Report on Internal Controls contains no material weaknesses, it identifies two reportable conditions in BXA's internal control structure:

- Accounts Payable Fiscal Year-end Cut-off Procedures Are Not Complete
- Accounts Receivable Balances Are Unsupported

KPMG identified one instance of material non-compliance in its Report on Compliance with Laws and Regulations. BXA's financial accounting system does not substantially comply with the Federal Financial Management Improvement Act (FFMIA) of 1996 in that its financial management systems do not support the preparation of timely, accurate financial statements. Under FFMIA the auditors are required to report on whether the bureau's financial management systems substantially comply with Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level.

Our office reviewed a draft version of the BXA overview to its FY 1998 financial statements. The overview provides the linkage between the financial statements and the Government Performance and Results Act of 1993 that requires government entities to collect and report information on their performance in meeting goals and objectives. BXA incorporated many of our prior year suggestions to improve the clarity and conciseness of the overview. Consequently, this resulted in an improved discussion of its activities and results.

We informally provided BXA management with a memo containing our observations and recommendations on the draft overview. Management was responsive, and also indicated that BXA plans to make additional revisions to strengthen the overviews for FY 1999 and beyond. The OIG realizes that improving the overview is an iterative process. We encourage BXA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan can be found in Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal.

If you wish to discuss the contents of this report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by BXA during this audit.

Attachment

cc: Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

To obtain a copy of this financial statements report, please contact the OIG Publications Unit using any of the following means:

Mail: OIG Publications Unit
Mail Stop H7099-C
14th Street & Constitution Avenue, N.W.
Washington, D.C. 20230

E-Mail: oigreports@doc.gov

Telephone: 202-482-0231

FAX: 202-482-4266

For a complete listing of all OIG publicly released reports, visit the OIG Internet Web Site.

<http://www.oig.doc.gov>